

## Message Text

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PAGE 01 LAGOS 09711 041554Z  
ACTION AF-10

INFO OCT-01 ISO-00 IO-13 DOE-15 SOE-02 AID-05 CIAE-00  
EB-08 FRB-03 INR-10 NSAE-00 ICA-11 TRSE-00 XMB-02  
OPIC-03 SP-02 OMB-01 /086 W  
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P R 041515Z AUG 78  
FM AMEMBASSY LAGOS  
TO SECSTATE WASHDC PRIORITY 9891  
INFO USDOC WASHDC  
AMCONSUL KADUNA

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E.O. 11652: N/A  
TAGS: EFIN, NI  
SUBJECT: FOREIGN EXCHANGE PROBLEMS

REF: A) LAGOS 7539; B) LAGOS 8727

1. FOREIGN EXCHANGE WORRIES AND VARIOUS SOLUTIONS INCLUDING SECOND BILLION DOLLAR LOAN HAVE BEEN REPORTED REFTELS, BUT LATEST RUMOR IS THAT FMG IS CONSIDERING DEVALUATION. ACCORDING TO RECENT STORY IN BUSINESS TIMES (BT), FOREIGN EXCHANGE RESERVES WERE \$2.2 BILLION AT END OF JULY. THIS IS BELOW RULE-OF-THUMB REQUIREMENT THAT RESERVES EQUAL 4 MONTHS IMPORTS, WHICH ARE RUNNING \$1.1 BILLION PER MONTH. RESERVES HAVE BEEN DRAWN DOWN SINCE EXPORT EARNINGS ONLY RUNNING \$624 MILLION PER MONTH. BT REPORTED THAT THIS LED TO NAIRA DEVALUATION RECOMMENDATION BY IMF BUT CLAIM DENIED BY TOP CENTRAL BANK OFFICIALS.

2. FOREIGN EXCHANGE BIND AND POSSIBILITY OF DEVALUATION ARE INCREASINGLY FREQUENT TOPICS IN CALLS BY AMERICAN BUSINESSMEN. ON AUGUST 3, CATERPILLAR REP REPORTED THAT MANY OF HIS CUSTOMERS WHICH ARE LARGE CONSTRUCTION COMPANIES HAVE NOT BEEN PAID FOR UP TO SIX MONTHS. IN EARLIER CALL,  
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OIL SERVICE COMPANY REP VOLUNTEERED HIS CONCERN ABOUT DEVALUATION SINCE FMG WAS PRESSING HIM TO TAKE HALF PAYMENT IN NAIRA. ANOTHER AMERICAN BUSINESSMAN WITH NIGERIAN INVESTMENT SAID THAT CAPITAL ISSUES COMMISSION IN ATTEMPT TO LOWER REPATRIATION OF CAPITAL IS PRESSURING FIRMS TO SELL NEW SHARES RATHER THAN EXISTING EQUITY.

3. BRITISH HIGH COMMISSION (BHC) REPORTS SIMILAR INCIDENTS WITH BRITISH BUSINESSMEN. BHC REPS MADE REPRESENTATION ON SUBJECT TO MIN FINANCE AND EXPRESSED THEIR CONCERN THAT FMG COULD HAVE DIFFICULTY LATER IN YEAR AS EXPATRIATE FIRMS ATTEMPT TO REMIT EARNINGS GAINED FROM SELLING OFF EQUITY UNDER INDIGENIZATION PROGRAM.

4. COMMENT: IT IS NOT CLEAR THAT DEVALUATION WOULD IMPROVE THE BALANCE OF PAYMENTS (BOP) IN THE SHORT RUN. OIL SALES WHICH MAKE UP 93 PERCENT OF EXPORT EARNINGS ARE DENOMINATED IN DOLLARS. CAPITAL GOODS WHICH ARE LARGELY GOVERNMENT PURCHASES AND FOOD ARE PRICE INELASTIC AND MAKE UP APPROXIMATELY 80 PERCENT OF IMPORTS. CONSEQUENTLY, THERE WOULD BE ONLY INSIGNIFICANT CHANGES IN IMPORTS AND EXPORTS IN THE IMMEDIATE AFTERMATH OF DEVALUATION.

5. SECONDARY EFFECTS COULD REVERSE THE BOP AFTER A FEW YEARS. LOCAL MANUFACTURERS AND ASSEMBLERS MAINTAIN MINIMAL PRODUCTION FACILITIES IN ORDER TO KEEP STATUS UNDER INDIGENIZATION. MUCH OF WHAT THEY SELL IS IMPORTED. AFTER DEVALUATION, LOCAL PRODUCTION COST SHOULD DECLINE RELATIVE TO OFFSHORE PRODUCTION COST PROMPTING THEM INTO DOMESTIC EXPANSION. THIS COULD LEAD TO LOWER IMPORTS AND, GIVEN THE RIGHT INVESTMENT CLIMATE, IN IN-FLOW OF CAPITAL.

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ACTION REQUESTED: ACTING ECON COUNSELOR WILL BE CALLING ON OFFICIALS OF CENTRAL BANK AND MIN FINANCE TO OBTAIN FURTHER DETAILS. EMBASSY WOULD APPRECIATE DEPARTMENT CONTACTING IMF AND INQUIRING IF THEY HAVE RECOMMENDED DEVALUATION. PLEASE ADVISE.

WYMAN

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NNN

## Message Attributes

**Automatic Decaptoning:** X  
**Capture Date:** 01 jan 1994  
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**Current Classification:** UNCLASSIFIED  
**Concepts:** FOREIGN EXCHANGE  
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**Decaption Date:** 01 jan 1960  
**Decaption Note:**  
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**Disposition Approved on Date:**  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 20 Mar 2014  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
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**TAGS:** EFIN, NI  
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